

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project**

January 17, 2018

REVISED

Monterey Gateway Apartments, located at Monterey Road in Gilroy, requested and is being recommended for a reservation of \$1,132,283 in annual federal tax credits to finance the new construction of 74 units of housing serving seniors with rents affordable to households earning 30%-60% of area median income (AMI). The project will be developed by Danco Communities and will be located in Senate District 17 and Assembly District 30.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers.

Project Number CA-18-703

Project Name Monterey Gateway Apartments
Site Address: East Side of Monterey Street, North of Ervin Court
Gilroy, CA 95020 County: Santa Clara
Census Tract: 5126.03

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,132,283	\$0
Recommended:	\$1,132,283	\$0

Applicant Information

Applicant: Gilroy Monterey, LP
Contact: Chris Dart
Address: 5251 Ericson Way
Arcata, CA 95521
Phone: (707) 825-1531
Email: cdart@danco-group.com

General Partner(s) or Principal Owner(s): Johnson & Johnson Investments, LLC
Community Revitalization & Development Corp.
General Partner Type: Joint Venture
Parent Company(ies): Danco Communities
Community Revitalization & Development Corp.
Developer: Danco Communities
Investor/Consultant: Raymond James
Management Agent: FPI Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 75
 No. & % of Tax Credit Units: 74 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers (37 units - 50%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 35% of area median income 37
 Number of Units @ or below 50% of area median income 7
 Number of Units @ or below 60% of area median income 30

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: December 29, 2017

Information

Housing Type: Seniors
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Carmen Doonan

Unit Mix

60 1-Bedroom Unit(s)
 15 2-Bedroom Unit(s)

 75 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
32 1 Bedroom	30%	30%	\$672
2 1 Bedroom	50%	50%	\$1,120
26 1 Bedroom	60%	60%	\$1,344
5 2 Bedrooms	30%	30%	\$806
5 2 Bedrooms	50%	50%	\$1,343
4 2 Bedrooms	60%	60%	\$1,612
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$39,592,740

Project Cost Summary at Application

Land and Acquisition	\$3,842,253
Construction Costs	\$16,373,077
Rehabilitation Costs	\$0
Construction Contingency	\$818,654
Relocation	\$0
Architectural/Engineering	\$513,620
Const. Interest, Perm. Financing	\$2,981,167
Legal Fees, Appraisals	\$125,000
Reserves	\$302,346
Other Costs	\$3,335,278
Developer Fee	\$3,517,243
Commercial Costs	\$0
Total	\$31,808,638

Residential

Construction Cost Per Square Foot:	\$373
Per Unit Cost:	\$424,115
True Cash Per Unit Cost*:	\$400,755.81

Construction Financing		Permanent Financing	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank	\$22,000,000	Citibank	\$11,800,000
Santa Clara County	\$4,000,000	Santa Clara County	\$4,000,000
Santa Clara County - Land Loan	\$3,500,000	Santa Clara County - Land Loan	\$3,500,000
Tax Credit Equity	\$2,145,709	Deferred Developer Fee	\$1,751,952
		Tax Credit Equity	\$10,756,686
		TOTAL	\$31,808,638

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis:	\$26,965,532
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$35,055,192
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$1,132,283
Approved Developer Fee (in Project Cost & Eligible Basis):	\$3,517,243
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$0.95000

Per Regulation Section 10327(c)(6), the “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), once established at the initial funded application, the developer

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 9%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 100%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations. Annual operating expenses meet the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Significant Information / Additional Conditions

The project will have 37 units for homeless seniors and 37 units for seniors. The vacancy and collection loss for the homeless senior units will be 10% and the vacancy and collection loss for the 37 senior units will be 5% vacancy resulting in a blended vacancy rate of 7.5% used in the 15 year project cash flow projection.

Resyndication and Resyndication Transfer Event: N/A.

Local Reviewing Agency

The Local Reviewing Agency, the City of Gilroy, has completed a site review of this project and strongly supports this project.

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

CDLAC Additional Conditions: N/A.